

Fair value : towards a third stage of the French accounting capitalism?**By Jacques Richard (November 2003)**

Université de Paris –Dauphine; email « jacques.richard@dauphine.fr »

Cahier de recherche n° 2005-09

“Give an estimation to the goods
and for that not value them more than they
are worth, for it would be to make himself
rich in idea”..

Jacques Savary (1675,p.325)

« Les docteurs enseignent le droit romain,
les commerçants pratiquent..l’usage.. »

A. Frémery (1833, p.188)

Introduction

This article continues the project of exploring the development of accounting in relation with social and political systems as early initiated by Burchell and al (1980), Hopwood (1987), Mueller (1967), Nobes and Parker (1979), Tinker (1980), and Yamey (1964) in the English literature and by Colasse (1979), Mangenot (1976) and Richard (1975, 1980) in the French one; it is designed to propose an hypothesis for the interpretation of the evolution of the French accounting capitalism over a *long period*, from 1800 to our days on the basis of the regulation (laws and jurisprudence). It has been written at a critical phase of this development, in a period when France is expecting to have to apply the “international” standards and in a context where it remains a doubt about the scope of this appliance. As a matter of fact, since the refusal in July 2003 by the European Committee for Accounting regulation of two important standards proposed by the International Standard Board, the total appliance of the international standards seems to be possibly put in question;

Colasse (2003), in a recent thought devoted to the “resistible ascension of the IASC/IASB”, questions the reaction of the IASB: will this organisation go to revise his conceptual framework at the expense of important tenets or, using of the indecision of its interlocutors, try to get round the obstacle and impose its today’s accounting philosophy? Our hypothesis of work is that the IASB will finally succeed in “bargaining” the IFRS 39 at the expense of minor compromises; under this hypothesis we would show that the French accounting capitalism would know a third stage of its development in matter of regulation.

By “accounting capitalism” we mean, in line with the developments devoted by Max Weber (1995, pp.138-141) to the “accounting rationalism”, an economic system based on the private

propriety of the production means guided by a rationality expressed by accounting regulations; that “accounting rationality” has evolved along certain well distinct phases.

The three stages of development referred to are, by using a terminology *partially* derived from the historical German tradition of accounting theories (- see for a modern German presentation Moxter,1984a, and, for a French vision, Richard,1996-), the following ones: the “*static*” stage from about 1800 to 1900, the “*dynamic*” stage from about 1900 to 2000, and the “*futuric*” stage beginning with the appliance of the International Financial Reporting Standards (IFRS).

These stages are characterised by dominant accounting theories but the existence of these theories does not mean that the stages are pure ones; there can be phenomena of hysteresis so that some elements characterising a given stage can be conserved in a following stage, and, reciprocally, phenomena of anticipation so that some features of a given stage can be found in a previous stage.

The reference to the concepts “static”, “dynamic” and “futuric” implies, as we will see, that the proposed classification is essentially based on a problematic of *valuation* of the accounting result; nevertheless it is obvious that the evolution of the French accounting capitalism can be studied according to different points of view. Notably, in line with Colasse and Standish (1998), who used an institutional approach and showed how the French organs of regulation have been modified, especially under the influence of globalisation; it is true, as underlined by these two authors, that the French state has apparently never renounced, in the frame of what can be designed the “syndrom of Versailles”(p.111), to exercise a certain control (even if a different one) over the evolution of the regulation. However, what is the very motive of our study is the result of this control in term of an essential element of any capitalist system, it means the valuation of the result and more especially the distributable result (for broader views on the French system see notably Degos, 1998 and Mikol, 1995). This main focus on valuation problems will not prevent us to give some insights, in a secondary way, to formal problems (notably the presentation of the profit and loss statement) and also to institutional problems. As a final step we will try to rely our description of the three stages to socio-political problems and show how they could be related, in a certain degree, with the three “spirits of capitalism” as qualified by the sociologists Boltanski and Chiapello (1999,p.57) to design the evolution of capitalism from a familial towards a managerial then international ones.

The first stage of the French accounting capitalism: the “static” stage from about 1800 to 1900

In the course of this stage the main counterbalance against the capitalists-undertakers belongs to the creditors, who not only provide the main part of the external financing in the absence or the weakness of the stock market for shares, but also rely on political and judicial supports to exercise or at the least try to exercise their rights. It has been said by a specialist of law history that the French commercial law of the nineteenth century is essentially a law in favour of the defense of the creditors in order to limit their losses in case of bankruptcy (Hilaire, 1986,p.325).No wonder the accounting rules or jurisprudence and the accounting doctrine of the time are dominated by the conceptions of commercial lawyers (or academic lawyers).These French lawyers will develop, with the help of their German counterparts, from about 1800 to 1900, a philosophy of accounting at the service of their clients. This

philosophy , in the beginning of the nineteenth century, did not take the form of an elaborated theory but was already marked in the Commercial Code of 1807 as well in the works of its commentators and appliers.

The Code of Commerce of 1807 does not provide for any rule of valuation but gives in notes an example of inventory (balance sheet) in which it is said that the assets must be carried at their value (“cours”) on the day of inventory (Code de commerce,1808,p.297). By value it is probably thought to be market value ; this is in any case the interpretation of one of the most reputed commentators of the Code, Delaporte who specifies that “the fair estimation of merchandises must occur.. not on the basis of their cost ..but on proportion of their value”(Delaporte,1808,p.122). The adoption of a fair market value concept is confirmed by other French authors whose task is to comment or apply the Code such as Vincens (1821,p.48) and Molinier (1846,p.194). This conception also inspired, according to Moxter (1982,p.1030), the jurists redactors of the first German Code of Commerce when they decided in 1857 to choose a market value as the basis for the valuation of assets (Richard,2001,pp.29-30 and the cited German literature).An explicit explanation of this preference for market value is difficult to find before the second half of the nineteenth century; but there are a number of direct references to the necessity to protect the creditors in the works of de la Porte (1808,p.118), Molinier (1846,p.194) and Bedarride (1854,p.252); in an interesting way Delangle,(1843,pp.332-333) relies the abandonment of the rule of giving back perceived dividends (in case of bankruptcy) to the preparation of a special type of inventory. But the explicit explanation in form of veritable theory, the so called “static” theory, can be found in the German jurisprudence (decision Rep.934/73 of the 3.12.1873 taken by the ROHG, High tribunal of the Empire, as referenced afterwards THE,1873) and literature (Anschütz and Von Voldendorff,1867; Ring,1886;Simon,1886).We base our presentation of the static theory on these German contributions.

What is the essence of the static theory (as nominated very lately by Schmalenbach (1919,p.36)?

The basis of this theory is that every human enterprise is not only ineluctably mortal in a certain delay but also very fragile and may be *capable of a brutal unexpected death* at any moment; at the difference of the today’s regulators who assume the going concern of every enterprise (if not proved the probability of failure), the static jurists recommend the appliance of another principle, which we have called the “principle of death” (Collette and Richard,2000,p.54). According to that principle it is required to invision at every moment the possible failure of the enterprise and then to proceed as if the enterprise must be “liquidated” (decision of the German THE, 1873,p19).

This principle of a “fictitious liquidation” (the expression is used by the THE,1873,p.19) implies the principle of evaluation at the market value of every asset taken separately (one by one). The problem is to approximate, without taking account of the real liquidation losses (THE,1873,p19), the sums to be recuperated in case of failure to cover the debts. Only an “objective” (active) market value is admissible (THE,1873,p.18). This theory is also taken by the French lawyers Vavasseur (1883,p.126) and Thaller (1904 pp 128-129) .In this sense the “Napoleonic” statics and their German followers are fanatics of the fair value but only in a sense (see infra).

This theory has “dramatic” consequences on certain assets particularly on intangibles of which the bigger part is devoted to an immediate scrapping due to the fact that there is no active market to sell them. This is the case for foundation costs but also for development , advertising and training costs (Thaller, 1904,p.130); even the acquired goodwill is devoted to this sad fate (see after). Of course it has been acquired within the frame of a commercial exchange ;but, according to the static lawyers, an isolated exchange has nothing to do with an exchange on an active market and goodwill is not to be resold separately.

Generally the tangible assets are better treated by the static theory, but the same rules as for intangibles apply to them so that a very specialised machinery that it is impossible to sell on a market could also be scrapped immediately or in a short period. This could be the reason why some reputed French specialists of management or managers do not hesitate to apply these principles: Courcelle –Seneuil, a well known author of a book on management says that “the buildings ,the machines and the furniture must be valued ..as materials” and confesses that although with that method “the first years seemed to be charged with an enormous loss” these “badly recreative” figures would “conform to the truth”(1872,p.272).Didier, a manager of a big firm who wants a “severe balance sheet” likes to cite the proverb according to which “here dividends are high but it is activated, and where there is no distribution there is no activation” and admires managers who do not hesitate to scrap immediately their fixed assets (1885,p136).This position can also be found later even in the works of an economist such as Colson (1919,p.21).

According to the pure static theory, not only potential losses are taken in account but also potential gains (Delaporte 1808,p.122). This can be the case, most frequently, for land, buildings, and financial investments; however, in the course of the nineteenth century, the pure “static” theory has been amended to give place to a variant that we may call the “prudent static theory” which refuses to carry any potential gain for distribution. This important change can be essentially explained by the following elements : during the first half of the nineteenth century, at a time when most of small and big companies work under the legal regime of the unlimited liability, there was no problem, from the creditors’ point of view , to account for potential gains and even to distribute them among the associates because in case of bankruptcy there would be a chance to recover these gains in the private fortune of these associates. In that situation it was normal, as proposed by most lawyers (see for example Delaporte,1808,p.117-118, Locré,1829,p.349 and Molinier,1846,p.193), to take in the balance sheet all the professional and private fortune of capitalists and to value it at the full fair value. But towards 1850- 1860, at a time when new commercial laws permitted a strong development of the limited type of company, this reasoning becomes very questionable, if not dangerous, for the distributed potential gains to the shareholders of that type of company are no longer “to be seen”. To take account of this new situation the “static” lawyers must abandon the “purity” of their theory while deciding that potential gains can no longer be distributed (see the famous Mires case (Cass 28/6/1862,Sirey,1862,1,p.645).Starting from this new position, the importance of which has been stressed by many authors such as Charpentier and Hamelin (1935,p359),the static lawyers or academic lawyers will hesitate between two main accounting positions: either going on to register the assets at their full fair value, but “coagulate” the corresponding holding gains in special reserves in the liabilities’ side, or totally eliminate the potential gains from the balance sheet (for a discussion on this point see Houpin,1923).The last solution is referred to as applying the principle of the lower of cost or market or even sometimes, in a deceitful sense (see infra), the principle of cost. This static principle of the lower of cost or market has nothing to do with the modern concept to which we are today accustomed. While the first is concerning the whole of assets, including the fixed assets (which implies the disappearance of most intangibles), the second is only applied to the current assets (see below).

After the Mires case, the prudent static theory is progressively developed by the jurisprudence (see notably the Pereire case, Paris,16/4/1870,Sirey,1870,2,169 and the Bontoux case,Crim,rej,23 Juin 1883,Sirey,1983,1,428);it is considered as a basic solution (Thaller,1904,p.139);it culminates towards the end of the nineteenth century with the following jurisprudential decisions or doctrinal positions, that are related by well known jurists as Amiaud (1920,p.8) ,Brière (1934,p.167) and Houpin (1923):

-first, are considered as “fictitious” assets and must be immediately scrapped or, as a measure of clemency, amortised in a short delay, the start up costs, the development, the advertising and the training costs (Douai,3 February 1910 and Aix,5 July 1911);

-second, the acquired goodwill is assimilated to start up costs and must be also scrapped immediately or in a short period(Besançon,1/2/1895,Rev.Soc,1895,p.425and Lyon,20/2/1903, Dalloz,1904,2,17);

-third, the whole of financial investments (even long term investments) are to be valued at the lower of the cost of market(stock market in principle);the doctrine and the jurisprudence also admit the valuation at the full fair market value but on the condition that the potential gains are treated as holding non distributable gains in a special reserve on the liability’s side (Houpin,1923);

-fourth, the fixed tangible assets must be principally valued at the lower of cost of market but, as it is the case of financial assets can be valued at their full fair value on the condition that the corresponding holding gains are isolated in a special reserve (Vavasseur,1883; Wahl,1901, and Houpin,1923). It must be said that as far as ,in some cases, the market value of specialised tangible assets is difficult to appreciate, the static academic lawyers renounce to apply their theory and , as a solution of compromise, admit the valuation at the cost Vavasseur,1883,p126).

Nevertheless, in spite of these twists to its principles, the prudent static theory was yet well on its feet at the *end of the nineteenth century* and inspired not only the jurisprudence but also the financial analysis, especially of bankers (Praquin,2003,pp.467-582).It must be said that this theory could not have probably so long resisted without the direct or indirect support of a significant support of a part of the French capitalists; Lemarchand (1993,pp.529-581) has shown in an eloquent way how many industrial firms which privileged *self financing* , a typical way of financing for most companies in the first half of the nineteenth century and for a part of them in the second half (Palmade,1961,p.103,Bergeron,1978,p.131), had a strong motivation to use accounting practices in line with the pessimistic views of the static lawyers and even to go beyond them in order to create hidden reserves; in these firms it can be said that there was a kind of *de facto alliance* between some capitalists detaining the power (and “their” managers) with creditors against other hurried capitalists only searching for dividends; we also had mentioned this situation by stressing the fact that “ the practice of exaggerating the depreciations leans on the prudent regulations and goes with the appearance of two kinds of shareholders: big shareholders which control the enterprise and want to facilitate the self financing by way of reducing the dividends and apparent result and small ones who want, on the contrary, to maintain a regular dividend” (Richard,1980,tome 4,p.16).Needless to say, that, for the last category of capitalists, the static predilection for the rapid scrapping of most intangibles, if not of tangibles , and its use of changing market values was not a motive of “enthusiasm”. This fact, that we will examine now, has conducted to the apparition of a second stage of the French accounting capitalism.

The second stage of the French accounting capitalism: the “dynamic” stage (1900-2000)

In 1920, one of the most reputed commercial lawyers of that time would write, by commenting the principles derived from the rule of the fixity of capital: “a very strong attenuation to the harshness of this principle is brought by the fact that companies are authorised to register, at least temporarily, their start-up costs in their assets instead of scrapping them immediately as expenses”; he then added that this measure (and others)“permit to conciliate the requirements of the shareholders for whom an immediate

distribution is so vital with the necessity to assure to the creditors a serious warrant of their rights” (Amiaud,1920,p8). This wonderful sentence says in a nutshell the fundamental reason of the appearance of a new “dynamic” theory of accounting in the context of the second stage of the French accounting capitalism: towards the end of the nineteenth century the static accounting with its immediate scrapings has become unbearable for the financial (stock-market) capitalism.

Of course it can be found very early in the French writings, as it is also the case also in some German works (Oberbrinckmann,1990; Richard,2001), some traces of a dynamic cost based conception in the studies of some authors such as de Cazaux, 1825,p.87, Mathieu de Dombasles (1821),Godard(1827,pp86-87), Jeannin (1828), Malo(1841,p.55),Monginot(1854), Barré (1872,pp.63-65),Chevandier de Valdrome,1878,p.31) and especially Leautey and Guilbault (1889) and Leautey (1897); but, first, some of these specialists are not consistent and *hesitate* between the static and the dynamic conceptions, as it is can be seen by comparing their different versions of the same work (Mathieu de Dombasles,1821,p.200 and 1826,p.144; Monginot,1854,p.128 and 1867,p.135) or by reading their advices for the rapid depreciation of intangibles and their desire to take account of market values (Leautey et Guilbault, fourteenth edition,pp.216-217, in spite of the fact that they defend the “théorie du prix de revient”) ; second, they have not a clear conception of the alternative fictitious liquidation theory (Monginot,1854,p.128, speaks of a *real* liquidation) and of a general theory to oppose; and third, with the exception perhaps of Chevandier de Valdrome, who, as stressed by Nikitin (1992,p.467), relies the necessity of depreciation to the existence of shareholders, they do not state their proposals, which are made in a purely normative or positive way, in a conscious socio-political context. The very premises of a *conscious* political“revolt” against the awful static theory go back to the years 1840-1850 along with the massive development of the *railway-companies*; already at that time the representatives of these companies imagine new accounting devices to allow for a better treatment of their shareholders (Lemarchand 1993,pp.487-506); a few years later, in 1874, they even obtain a support from the French administration with a special case allowing for the absence of any depreciation of fixed assets in the accounts of the convented railway companies (see the text in Dalloz,1875,p.52 and its comment by Lemarchand ,1993,p.521-522). Although these devices or measures appear as a first blow against the dominant official theory of accounting they are not capable of shaking the static lawyers because they are restricted to a peculiar sector of the economy and not in line with the needs of the bulk of big capitalists who want at that time a certain type of depreciation of fixed assets (see *infra*).In our mind, the *fundamental* conscious attack, assorted with a real *theoretical conception*, against the static views will came in the last part of the nineteenth century under the influence of Germany.

It is not to say that in France, at that time, some *explicit* socio-political complaints against the static views are not to be seen: Nikitin (1992,pp.230-242) has shown, for example, how, in the years 1872-1880, the shareholders of Saint-Gobain, complain that the use of extraordinary (it means static) depreciations is detriment to their dividends and ask for a larger use of more regular “ordinary” depreciations; but this kind of attack is at the local level and not systematised in a theory; in Germany, on the contrary, for specific reasons (see *infra*), the battle is a national one and leads to the appearance of theoretical works which will have a strong influence in France (see *infra*). A small deviation by the land of Goethe in the seventies is then necessary.

At that time the last law on companies is the Novelle from 11/6/1870, as inserted in the German Code of Commerce ; this law is, as the preceding ones (Richard,2001,p.29) of a static “wood” , and applies, at the difference of the French case, without special adjusting, to all types of public companies including big companies and railway companies. This the reason why some representatives of the two last categories such as Keyszner(1875),Von Strombeck

(1878) and Scheffler (1879), very dissatisfied with the obligation to apply static rules, will lead a fierce fight against this law according to the following main developments. They first acknowledge that the *Novelle* implies both the respect of fixity of capital and of valuation of assets at their market value (Keyszner,p.136,Von Strombeck,p.70) and that these principles are too favourable to the creditors at the detriment of shareholders (Von Strombeck,p.22, Keyszner,p.141).They think that the creditors must take risks and that their protection must only come from the profitability of the company (Keyszner,p.141, Von Strombeck,p.22).They underline that it is necessary to help the shareholders with a regulation especially suited to their need of dividends (Keyszner,p.138, Von Strombeck,pp.18 and 69).They propose to suppress the principle of fixity of capital (Von Strombeck,pp.18 and39) and to build a special type of balance sheet better permitting to distribute regular dividends (Keyszner,p.138, Von Strombeck,p.29).This special balance sheet ought to be based on a principle of valuation permitting to avoid the defaults of fair market accounting, it means the instability of profits due to the fluctuations of market prices (Von Strombeck,pp.16,26 and 76), and the appearance of heavy losses at the beginning of investments, due to the scrapping of “fictitious”assets (Keyszner,p.141).Their special balance sheet (as named “exploitation balance sheet” by opposition to the static “fortune balance sheet” by Von Strombeck,p.29), should be based on the principle of *cost* (Keyszner,p.138, Von Strombeck,p.76), including the cost of some “fictitious” assets such as resulting of emission of capital below the par shares or heavy losses incurred by scrapping some assets (Keyszner,pp.141and144),and of regular distribution of this cost over the period of investment, without any taking account of the fluctuation of prices (Von Strombeck,pp15 and.76).As a conclusion, they propose to reform the Code of Commerce in line with their requirements (Keyszner,p.144,Von Strombeck,p.69) with a special emphasis on the urge of this change for big companies (Von Strombeck,p.27).Their explicit struggle for a new era of accounting regulation was in our mind the first one in continental Europe, well in advance over the similar one of the Belgian (influenced in France) de Laveleye (1885); *it went successful*; in 1884 a new law on public companies (*Aktiengesetz vom 18.Juli 1884*) is promulgated whose article 261 al 3 stipulates that “fixed assets and other assets which are not devoted to be resold but designed to be used for exploitation are possibly valued at cost without taking account of any impairment under the condition that there is a systematic depreciation in line with their use”. This law definitively breaks the monopoly of the static theory and defeats its main principle, the principle of “death”; it opens the road to new theories based on the “going concern principle” with, as it is to be seen from the history of the German accounting, two main trends; one trend represented first by Scheffler (1879), Von Willmowski (1891), the founder of the German fiscal doctrine, Fischer (1905), then systemised and propaganded in a very effective way by the illustrious Schmalenbach (1908 and 1919), affirms that the choice opened by the article 261 must be made in favour of a dynamic conception of accounting with fixed assets maintained at their (depreciated) cost without any impairment for fluctuation of values; the other one, theorised by Simon (1886 and 1889), a most influential lawyer, promotes a “actuarial” theory of accounting according to which the fixed assets are to be valued at the lower of their cost or their value in use based on discounted cash flows. As we are going to see many French lawyers, academic lawyers and managers will be *greatly influenced* by the German accounting revolution, in whatever a legal, judicial or doctrinal area.

The German laws are referred to by many French leading academic lawyers as Vavasseur, (1884,p.308), Charpentier (1906,p.11 and 141), Faragi,(1906,p.137), Neymark,(1911,p.148) Magnin, (1912,p.420), Amiaud,(1920,p.35), Charpentier and Hamelin, (1935,pp.47,84 and 128).

The dynamic solution proposed by the article 261 al 3 of the German law of 1884 and its “followers” is generally referred to as the “system of the cost” (“*système du prix de revient* ou

du prix d'achat”) as it is the case for Charpentier (1906,p113), Magnin (1912,p.422 and Charpentier and Hamelin (1935,p.87); Amiaud (1920,p.29) also underlines the relationship between the German legislation and the position taken by Leautey, a French specialist promoter of the “système du prix de revient”.

The pure dynamic solution of Fischer (may be also indirectly transmitted by de Gregorio as suggested by Amiaud,p.100) visibly inspired the position of Magnin (1912,p.431 to 433).

The option taken by Simon in favor of a value in use (valeur d'emploi) are adopted by Charpentier (1906,pp.125 and 136) and Charpentier and Hamelin (1935,pp.96-100); in a more general way, the Simon's concepts of subjective value (as opposed to objective value) strongly impressed the French authors (Faragi,1906,p.165, Magnin,1912,p.426, Charpentier and Hamelin,1935,pp.90,91,96) even very lately (Voutsis, 1965,p.32) ; the German typology of static and dynamic accounting types is also used (Charpentier and Hamelin,1935,p.27).Thanks to the debate between partisans of the static and dynamic views the distinction of the various hypothesis to be taken to build a balance sheet becomes a common fact in financial analysis (Julhiet,1922,pp.240-243).

All these German influences must have also an impact on the French *jurisprudence* and later *legislation*. The new doctrine, in spite of some resistance of the “old” static partisans such as Dreyfus(1912) and especially Dalsace (1944, p.25), progressively marked points, in the course of a development which we are going to relate now.

The new stream wins some battles in matter of *tangible fixed assets* at the very beginning of the twentieth century with the case Rouen,10 Mars1909, Sirey,1912,2,p.108; as it is underlined by one of the most influent academic lawyers at that time, with this new judicial decision, there is in matter of tangible assets a kind of “attenuation” of the static position and a recognition of the “custom, very reasonable indeed, according to which the fixed assets such as plants ,works and machinery are not carried in the balance sheet at their market price but at the value of the potential services they are able to render to the company, that is not the liquidation value but the value in use”(Amiaud,1920,p.8).This new trend ,which has to cope with the resistance of a few tribunals , is comforted in a certain way, as it is underlined at that time by Amiaud (1920,p.99), by the appearance of a new actor on the French accounting scene, the tax administration. For the determination of taxable profit the tax law of the 31/7/1917, as completed by ministerial texts for appliance, admits without condition (except for the respect of “industrial customs”) the deduction of a lump sum depreciation determined by dividing the purchase cost by the number of years of use (article 4 of the law as interpreted by the article 27 general instruction of the 31.1.1928); on the other hand, as it is confirmed by some specialists such as Vigier(1941,pp.2et 3) and Prospert (1934,p.75), the deduction of additional expenses to take account of an impairment due to a decrease of the market value, although not totally impossible, would be very difficult to obtain face to a tax administration very reluctant to admit (without substantial proofs of a persistent decrease) a demand contrary to his expectation of a steady flow of income. Before the second war world it can be said that the tax administration had played an important role in the passage of French accounting to a dynamic type of depreciation. The static view is also somewhat defeated by the new penal legislation : as it is stressed by Voutsis (1965,p.26) the decree law of the 8 August 1935, while prohibiting the presentation of an unfair balance sheet, prevents from any kind of *under*-evaluation as well as over-evaluation. In 1947and 1957, the first national “Plans Comptables” (-these Plans Comptables, although not obligatory for most companies until the decree of the 7 August 1958, represented at that time the reference to follow in matter of establishing the financial statements-) also provide for a (systematic) depreciation taking account of the “degree of use” and the “changes resulting of new techniques” ; a possibility of a complementary impairment is opened but *without any precision* about its determination (Plan Comptable General,1947,p.82); in 1982, it is notified that in addition to the systematic

“dynamic” depreciation, a provision for impairment must be carried to take account of any “notably” inferior sale value (“valeur actuelle” assimilated to a “valeur vénale” as explained by the PCG,1982,pp.98 and 100); but, in a very revealing way, this so called “sale value” is defined as “the presumed price that an possible *acquirer of the enterprise* would accept to pay to get an asset in its state and location, taking account of the situation of the enterprise and (most often) of the (justified) hypothesis of going concern” (PCG,1982,p.98); here is the appliance of the Simon’s theory: the objective market value has been ousted to the profit of a subjective value in use. This is the theory: as a matter of fact most French enterprises at that time (in the period 1947-2000) apply tax rules in their individual accounts (as opposed to the consolidated accounts) for they are obliged to register the tax allowed depreciation (article 39 of the tax code) if they want to get this depreciation recognised by the tax administration; as far as this latter has never provided for the case of an impairment based on a lower value in use (Mémento Pratique Francis Lefebvre,1999,p.438), the most probable conduct is the use of the basic tax type of depreciation; it means , the same as in 1917, a systematic planned allowance taking account of the “*definitive* depreciation due to the use ,the time or any other motive” without any reference to a market value and even a value in use ; the most popular depreciation is the linear one (over the period of use admitted by the tax administration) because this linear depreciation is considered as a minimum which is lost if not registered.

At that time of reasoning one could consider that, in matter of individual accounts, the French accounting, during the period 1900-2000, could have been characterised by the victory of the “dynamic” conception of depreciation; in fact, due to the possibility opened after 1950 (especially with the law of the 28/9/1959) by the tax administration, to choose accelerated timings of depreciation (but over the period of use) for certain types of tangible fixed assets, this victory was somewhat “polluted” by practices not in line with a pure dynamic conception and governed by tax considerations (see Rives, 1962, and Poujol,1965,p.22). This all the more than a tax Decree of 28 October 1965 (article 38) imposed to register tax depreciations in the general financial accounting if this fiscal type of valuation was preferred by the enterprise. However, in the other hand, the more recent legislation on consolidation (beginning with the law of 1985 on consolidated accounts) has a very “dynamic” stance as far as depreciation must be made in a systematic way over the period of use without any reference to tax valuations (Decree 67-236 art 248-6); an inquiry of the practices of big French groups show that most of them, at the difference of their habit in individual accounts, choose a linear depreciation (Richard, 2000,p.163)). As a matter of conclusion, it can be said that, in matter of tangible assets, the dynamic type of depreciation has *globally* won the battle over the static one.

The victory of the new stream took more time in matter of *long term financial investments* (held for control or available for sale). In 1947 and 1957 the two first French accounting plans provide that quoted long term financial investments are, in the same way as short term financial investments, valued at the lower of cost or market, with a reference to the average quotation of the last month (Poujol,1965,p.150). It is only in 1982 that this traditional static vision is abandoned ; the third PCG declares that the value of a long term financial investment is “what a prudent and informed undertaker would accept to pay to obtain it, it means its value in use, which one depends of the utility that the investment represents for the enterprise”(PCG,1982,p.100); this is again the victory of the Simon’s subjective theory of the value in use with his prudent stance as far it is always forbidden to register any potential gain and it is referred to a “prudent” capitalist.

It is in matter of *intangibles* that the new spirit of accounting has met the most difficulties to gain ground, if we except one accidental case.

If we take first the case of *start up costs* (understood in a narrow sense that is comprising the costs of foundation and rising capital), these costs have always been considered as fictitious

assets by the French by the jurisprudence (see Voutsis,1965,pp.48-49) and regulations after the second world war; if, from the very beginning, they have been admitted by the Plan Comptable as an asset, it was on the condition that “their amortisation occurs as soon as possible and in any case within five years”(PCG,1947,p.76); still today they may be activated but, in that case, “they must be amortised according to a plan and in any case within the maximal delay of five years” (PCG,1999,Article 361-3); in line with the law on companies (decret 67-236,1967), the third accounting plan specified that “as long as the amortisation has not been achieved, the enterprise, when it is a company, has no right to make a distribution of dividends except when exist free reserves of which the amount is at least equal to the net value of the start up cost” (PCG,1982,P.119); interestingly, this precision has not been resumed by the last PCG of 1999 (article 361-3) although the same interdiction of distribution always applies to the companies according to the texts regulating accounting (décret “comptable” 83-1020 of the 29/11/1983, article 19): it looks like as if there is a kind of dissociation between “pure” common accounting rules (id est the PCG) and “companies” special accounting rules; in spite of this evolution one can say that the static position is always up to date.

The case of *development costs* is a different one; until the PCG of 1982 these costs might be registered as assets but, as they are “fictitious” assets (Poujol,1965,p.96), they must be amortised “as soon as possible” and in any case in not more than five periods (PCG,1947,p.76; Poujol,1965,p.91).The dynamic position only timidly appears in 1982 when the third PCG provides that in “exceptional” cases and for “particular products”, the development costs may be amortised over a “longer period” (than the traditional five years) “not exceeding their period of use”(PCG,1982,p.119, renewed by the PCG,1999,article 361-3). But the French companies will not be very much tempted to abuse of this (small) victory of the dynamic vision for three main reasons: first, as far as companies are concerned, there is the same limitation of distribution of dividends as the one formulated for start up costs, with the same evolution of the place of this interdiction in the different regulations on accounting (PCG,1999,article,363-3 and Decree 83-1020,1983, article 19); second, in individual accounts, the tax administration solutions (which permit an immediate scrapping of all development costs) are generally preferred (see, for the reasons, the case of tangible fixed assets); and third, in consolidated accounts, the American example (immediate scrapping of most development costs according to FASB statement number two,1974) probably explains the modesty of activation observed in practice (Richard,2000,p.164) in these more “favourable” accounts.

In matter of *advertising and training costs* (and more generally in matter of start up costs in a broad sense), it must also be waited for the PCG 1982 (p.119) to see the appearance, in a very little precise way, of the possibility to register, in a way of “exception”, such “expenses” in the asset side; this possible activation (which is again provided for in the last PCG 1999,article 211-1), does not occur in a fixed asset account but in a so called “account for regularisation” (PCG,1982,p119) :always some fear for “fictitious assets”! , Interestingly, however, there is no special rule for distribution of dividends at the difference of the case of start-up and development costs.

The case of the *acquired goodwill* is a very complex and peculiar one. It must be first remembered that before 1917,the static principle of a rapid if not immediate scrapping of the goodwill dominated the French commercial jurisprudence (see supra);after the first world war, a number of influent authors such as Batardon (1931,p.186) continue to defend the principles of the static theory against the promoters of the dynamic stream; but a third “fellow” came to confuse the issue: again the tax administration. This latter, probably for budgeting reasons, decided to prohibit , as soon as 1925, any systematic depreciation of goodwill (Brière,1934,p183).; in some periods it also prohibited any impairment which, as a

matter in fact, in other periods, was very difficult to obtain from the tax administration even when it was theoretically possible. It seems that, in this few favourable context, the static commercial judges and accounting regulators have lost heart; it is symptomatic that in 1947 and in 1957 the redactors of the first two French accounting plans “confirmed” the position of the tax administration: these documents do not mention any account for a systematic depreciation and only propose the possibility to use an account for impairment without specifying the conditions of its use (PCG,1947,pp.79-81, Poujol,1965,p.96). But, in 1982, in the context of an international environment more favourable to a dynamic position (see notably the American position of the APB number 16 and 17 taken in 1970 and their comment by Hughes,1982), the third accounting plan allows a special account for the systematic depreciation of goodwill (PCG,1982,p.67); it is also noted that the “intangible elements composing the goodwill do not necessary benefit from a juridical protection so that they could have a certain value” (PCG,1982,p.120); there is also visibly a kind of stir to consider the systematic depreciation of goodwill as a normal thing. This dynamic pushing is even more obvious if one considers the regulation in matter of consolidated accounts; this latter, indeed, states that the positive goodwill must be “written down as an expense in the profit and loss statement according to a planned depreciation”(decree 67-236 on companies as modified by the law of 1985 on consolidated accounts).

It comes out these developments that from about 1900 to 2000 the French regulation has *globally advanced towards a dynamic conception* with, however, a different degree, as far the two constituencies of the accounting system are considered.

The dynamic stance has strongly dominated the regulation for consolidated accounts in spite of some resistance announcing the third stage (Richard,2000,p.166); the fact is not a surprising one if one knows that this type of accounts are not used for tax declaration purposes but to inform on the performance in taking account of the two basic dynamic principles which are the predominance of substance over form and the matching of expenses to revenues (regulation 99-02 of the CRC, 1999,§300).

The dynamic vision has also invested the individual accounts but with a more “modest” achievement: in matter of tangible fixed assets the dynamic conception has won the battle over the static conception but has been polluted by tax considerations and in matter of intangible assets the new legislation has only proposed dynamic options without imposing them; that modesty of progress can be explained by the fact that in France individual accounts are, from the point of view of capitalists, the centre of gravity of *two contradictory interests*:

-first, individual accounts are the only one basis for the distribution of dividends: in that respect it is understandable that French representatives of the “financial capitalism” could have wished a more dynamic orientation of the accounting system;

-second, individual accounts are also the reference in matter of tax determination; so, in the absence of any system of disconnection similar to the one used in the “anglo-saxon” world, French enterprises, especially those which are not financed on the stock markets, have no particular interest to push dynamic rules in contradiction with their “tax interests”.

It is then possible to emit the hypothesis that the resistance to the dynamic conception of accounting and the apparent maintain of some static rules is largely due to the birth, after the second world war, of a tax legislation favourable to a rapid depreciation of fixed assets (with, up to that time, the notable exception of goodwill).It looks like as if there was an (only) apparently “contradictory” dream for the French capitalists to see the tax rules more and more with the colours of the static conception (rapid depreciation) and the pure “financial” rules with those of the dynamic one. Without that tax “brake” the dynamic upsurge would have probably been stronger.

The study of the evolution of the French accounting system has been based, up to now, on valuation criteria; but another interesting criterion to examine could be the form of the financial statements; the structure of the profit and loss statement particularly deserves some insight.

Before the second world war, from 1800 to 1939, in a period essentially dominated by the doctrine of economic liberalism and the failure of the numerous attempts to unify the balance sheet (Lemarchand,1993,pp.598-602), the form of the profit and loss statement has been left to the free initiative of the capitalists with a large diversity of the forms of P&L statements; however it can be underlined that a model with a classification of expenses by functions allowing to show the cost of good sold and the administrative expenses was a classical way of presenting the results at the end of the period (Julhiet,1922,pp.221-223). This conception, generally in line with an integration of the financial and the management accounting (to use a modern terminology), was well adapted to a microeconomic vision of accounting focusing on the result for the undertaker and showing how it has been acquired at the different stages of the production cycle.

After the second world war, in a completely different context marked by the influence of the communist and Gaullist political movements and the will to have some planning of the production and the repartition of the wealth, the first attempts to construct a national system of economic information was to be seen; this “new deal” could not have no influence on the French accounting system. As soon as 1947, the choice of a “Plan Comptable General” with a dualist structure, according to which accounts for financial accounting are separated from accounts for management accounting, permitted to reserve the classification by functions to the management accounting while promoting a standardised classification of expenses by nature inside the financial accounting (Brunet, 1951, Fourastié, 1961, Richard,1993, Standish, 1997); however this first attempt of a systematic and nation- wide information over the elements of the national product was not totally satisfying the needs of the French macroeconomists and planners; after an “eclipse”, from about 1950 to 1970, the question of the restructuring of the P&L statement in a more macroeconomic sense was again evoked in the seventies at a time when the “Conseil National de la Comptabilité” was composed of a group of members particularly in touch with this orientation (Richard ,1996,p.121, Colasse and Standish,1998,p.137). In 1982 the third accounting plan (practically renewed in 1999 with the same basic features) gave birth to a new style of classification of expenses by nature allowing to calculate, without any difficulty, at the level of each enterprise macroeconomic data such as the production of added value and its distribution (PCG,1982,p.198, Benedetti, 2000).This classification, without equivalent in the world -at the exception of those conceived, with a different objective, in some socialist countries such as Yugoslavia and GDR (Richard,1980 and 1983), was notably designed to permit a better visibility of the repartition of the produced wealth among the various stakeholders both at the micro-economic and the macro-economic levels. This enlarged vision, in comparison with the traditional micro-economic stance prevailing before the second world war, was not obligatorily well accepted by all the constituencies; as it has been showed, most French companies were very reluctant to use the “spoon-fed” information in order to *publish* value added oriented statements (Haller and Stolowy, 1995). In the same sense, it may be stressed that a few years later, under the action of the representatives of big French groups, in a context already marked by the international pressure on the French accounting (publications of the fourth directive and above all of the IAS standards), the law and the derived texts on consolidated statements do not provide any more for an obligation to show the profit and loss statement according to a classification by nature (Decree 67-236 of the 23/3/1967,§248-10). However, on the other hand, this information of the individual accounts remains a basic tool, not only for macroeconomists in charge of the national statistics but also for trade unions (Capron,) and

financial analysts, as it is obvious from the lecture of the almost all the books of financial analysis published in France.

To sum up, at the end of the twentieth century, the French financial accounting had strongly evolved towards a dynamic conception and presented the peculiarity, in matter of individual accounts, to be macro-economic oriented. But this new situation was again to change.

Towards a third stage of the French accounting capitalism: the “futuristic” stage ?

During the previous stage the French “dynamic revolution” has occurred at a slowly space within the frame of an international context sufficiently permissive to preserve a certain “hexagonal conception” of accounting (to paraphrase a well known expression of the General de Gaulle). This time is over : France faces now a third brutal revolution globally marked, in spite of some resistance, by a “follow my leader” attitude towards the United states of America (US) implying the use of a new “futuristic” conception of accounting in line with a “Texan model” of governance.

The imitation of the US model of accounting

If one considers the legislative context in France the assumption of an influence of the US accounting model on the French one is not immediately plausible; France is a member state of the European Union and must respect the fourth and the seventh directives applied, respectively, in matter of individual and consolidated accounts; the existence of these directives could make believe that there is a European vision of accounting different from the US vision; in fact at the very beginning these directives were so flexible (with a lot of options) that it was impossible to find in them the spur of a clear accounting model or theory; in matter of *valuation*, to take an example, the goodwill, in the individual accounts, can be as well scrapped over a short period of five years (article 37-2 of the fourth directive referring to the article 34-1) or “systematically amortised over a limited period superior to five years but not exceeding the period of use”(article 37-2); in the consolidated accounts there is even a bigger choice as far the article 30-2 of the seventh directive provides that “the member states may permit that the goodwill be directly deduced in an apparent way from the retained earnings”; to say it in a nutshell both the static theory (rapid disappearance of goodwill) and the dynamic one (repartition of the cost over the period of use) are present; in matter of *presentation* of accounts the same flexibility is to be found: for example the classification of expenses can be made either by nature or by functions (article 22 of the fourth directive and 17 of the seventh directive).One could object that there is a minimalist broad conception: to take again the example of goodwill this latter must be amortised whether in the static or in the dynamic conditions. But even this minimal “European view” is over since the decision taken in 2003 by the Council of Ministers to adopt the IASB’s rules in matter of consolidated accounts of quoted companies from the year 2005 and to let free the member states to adopt the same rules in matter of individual accounts (directive adopted on the 6/5/2003) ; the European Union has then clearly renounced to have its own construction if not conception of accounting and has delegated this task to the IASB; the trial is pronounced: exit the European Union, place to the IASB!

But it must be said that the IASB claims to be a “neutral” organisation :the objective of getting a neutral accounting information at the service of all the users of accounting is stressed by the IASB’s framework (Framework,1989, English version , §§ 9 and 36); it must be also said that the IASB’s rules must gain the acknowledgement of the “European Committee of Regulation for Accounting”(ECRA: a board composed of representatives of the member

states) before getting the possibility to be applied ; so it could be said that if the European Union has delegated its power to regulate accounting this delegation is in the hands of a neutral minded organisation and, thanks to the ECRA, under control of the European states. These two points deserve some comments.

There are certain doubts to emit about the neutrality of the IASB; first, this organisation, in 2001, was composed, as it is stressed by Walton (2001,p.27), at 50% at its higher level (the Board itself) of representatives of the USA and Great Britain; these latter, presumably, will defend, with the help of “allied” representatives, an “anglo-saxon” conception of accounting; second, if we observe the products of the IASB, it is easy to notice that this organisation goes with or follows, in matter of very important questions, the US changes in accounting policy: as we will show it this is the case for the IAS 39 (globally in line with the SFAS 107 and 133) and for goodwill (proposal of abandonment of the rule of systematic depreciation as it is the case for the SFAS 141 of July 2001). No wonder that it has been underlined the risk of a “European accounting fiasco”(Richard,2003,p.6); no wonder that it has been stressed that the IASB’s philosophy is derived from the 1989 published FASB’s accounting framework, and that one could speak of the IASB as the “Trojan horse” of the US accounting legislator and of its indirect will to legitimise a “Texan model” of governance (Colasse,2003,p.8)!

There are also certain doubts about the capacity of Europe to organise a kind of resistance to the IASB model thanks to an ultimate “control” of their standards by the ECRA; some specialists think that since Europe has chosen to delegate its power of regulation it is unlikely that it will be able to play a real counter-power (Colasse, 2003, *ibid*); it is true, however, that the ECRA has recently refused to recognise two important standards, the standards 32 and 39 ; but the signification of this refusal is not yet clear; there can be two main possibilities: the first one is that there are some secondary limited problems concerning certain operations and or certain activities whose solution could permit to adopt the philosophy of the IAS 32 and 39 at the price of some adjustments; the second is that there is a refusal of the philosophy of these standards and a demand to transform them radically; up to now the IASB is working on a new draft of the refused standards and it is difficult to know what will be the outcome; for the while, our assumption is that the IASB, relying on the American (US) model of accounting, will succeed in preserving the today’s philosophy of the criticized standards and more broadly the essence of the “futuristic” vision of accounting.

Towards a “futuristic” conception of accounting?

The *static accounting* is based on active market values of the assets individually taken; in its dominant version, the prudent one, it is based on the principle of the lower of cost or market .The *dynamic accounting* relays on “cost-values” which are to be distributed over the period of use of the concerned assets.

We are going to name “*futuristic*” an accounting system which value assets at their value in use and which takes in account, in the profit and loss statement, as well potential profits as potential losses.

If the history of accounting is considered, the spiritual father of the “futuristic” type of accounting is Herman Veit Simon. This German lawyer has leaded a severe fight against the statics and their “objective” market value in the last part of the nineteenth century; he was a partisan of a “subjective” value that is a value in use (“*Gebrauchswert*”), more precisely an *individual* value in use, by opposition to the collective market value of the statics (1899,p.322). Simon thought, in line with certain economists of the time, that the value is “an affair of opinion”(1899,p.322); the opinion is the one of the merchant who owns the fortune to be valued; this merchant “has nothing to do with the value attributed by the market to his assets” (1899,p.304); he must value these assets (if they are not destined to sale) at their value

in use with the help of experts (1899,p.305); theoretically, for Simon, the value in use is a value based on profitability (“Rentabilitätswert”), calculated on the basis of future income generated by the assets (1899,p.366).

The value in use is also *the masterpiece of the standards of the IASB*, in spite of the fact that there is also a common reference to the market value when it is question of fair value; if we take for example the case of the IFRS 38 on intangibles it is said that “if an intangible asset is acquired in a business combination, the cost of that intangible asset is based on its fair value at the date of acquisition”(IFRS 38,1998,27);it is then specified that to determine the fair value “quoted market prices in an active market provide the most *reliable* measurement of fair value” (ibid,28) which seems to imply a static vision of accounting; but, it is added that “it is uncommon for an active market ..to exist for an intangible asset”(ibid,§67) and that in this case fair value may be determined by using “techniques” such as “discounting estimated future net cash flows from the asset”(ibid,§30). As it appears, the existence of an active market is only for the IASB a convenient (the most reliable) means of valuation; it is not *essential* to the existence of the asset : the essential point is the existence of a value in use which permits to “save” the majority of intangibles from the sad fate promised by the appliance of the static market theory; no wonder, in that conditions, that the IASB, in line with Simon, says that “*judgement* is required to determine whether the cost (i.e. fair value) .. can be measured with sufficient reliability” (ibid,§28)!

It is not sufficient to say that value in use is the basis of the whole construction of the IASB’s system of valuation; it must also be said that *full value in use*, in the sense of the registering of both potential gains as well as potential losses, is a possibility if not the aim according to the philosophy of the IASB. We can take two examples.

Let us take first the case of financial assets held for trading: they must be valued at their fair value (IFRS 39,1998,§69) that is ,in the absence of an active market, thanks to estimation techniques including discounted cash flow analysis (ibid,§100) and the potential gains must be “included in net profit or loss for the period in which it arises” (ibid,§103a).

Let us now consider the case of available for sale financial assets: they also must de valued at their fair value (ibid,§69) including value in use (ibid,§100) and there is a possibility (not an obligation) to register potential gains for the period in which they arise (ibid,§103bi).

It is to be added that all the fair value valuations of these intangible and financial assets must be corrected by using an impairment test (IAS 38,1998,§63 and IAS 39,§109) and that the impairment test takes account of both the market value and the value in use (IAS 36,§§21 to31) but the market value is not taken in account if the value in use is bigger (IAS 36,§15). At the difference of the static view, the market value (including the active market value) is “ejected” to let the place to the value in use when necessary : the market value is then a *secondary thing* and the value in use is generally, with the “presumption that an enterprise is a going concern without the intention or need to liquidate” (IAS,39,§98), the only important data. According to Alexander (2003,p.21) the concept of fair value in the IAS is not exempt of ambiguousness and it is difficult to know if “fair value as a market figure is a proxy for economic value rather than the other way round”; he underlines that in theory market value should equate economic value but that “in real world, of course, the assumptions.. are not valid”(Alexander,2003,p.19). In our opinion, in any case, market static values have nothing to do with fair value of the IASB : how could it be possible, for a given asset, that a value obtained in the frame of a (fictitious) dislocation of the enterprise could equate its value generated by its use over a long period?

The conclusion seems to be clear: in admitting the possibility if not the obligation to register potential gains based on the evolution of values in use for a number of very important (if not dominant in the today’s world) assets the IASB has followed until its extreme consequences the Simon’s theory. But The IASB appears as an extremist in comparison with Simon: the

reputed lawyer, who was afraid of the consequences of his proposals, had never accepted in practice the registration of potential gains resulting from an increase of the value in use (1899,p.409): he was a defender, for fixed assets, of a kind of lower of cost or value in use (1899,p.409).The position of the IASB, as far as certain type of assets are concerned, is then a revolutionary appliance of the Simon's theory. This position also constitutes a revolution from the point of view of the history of regulations in France: since the adoption of the principle of the lower of cost or market in 1862 the jurisprudence, with some minor exceptions, and the commercial regulations, have never accepted to register potential gains.

In itself the mere acceptance of potential gains based on market values would have created a sensation; it is true that this approach had been promoted by the Napoleonic lawyers at the beginning of the nineteenth century; but it must be stressed that these "pure" statics were operating at a time when the companies with unlimited liability were dominating the scene and when the consequences of the appearance of the limited liability had not been yet well analysed ; on the other hand, the fact, today, at a time when the limitation of liability is the rule for almost the whole of companies, to propose the registration of potential gains, should they be recognised by the market, appears as a kind of provocation, at least if one takes the point of view of creditors.

But what adds some "spice" to the situation is the fact that these potential gains could be recognised without any direct relationship to the values recognised by an active market and even a market; it "suffices" now, for the managers and their auditors, to discount cash flows generated by *future* sales resulting of a *future* use of some assets to create a registered and, a priori distributable, benefit ; this is well a revolution and the appearance of a third "futuristic" stage of accounting.

It could be said however that the appliance of the pure futuristic theory accounting is at the time chiefly limited to some financial or intangible assets; it is true that most intangible and tangible assets, once they have been valued at fair value at the time of a combination, must be depreciated along a dynamic type of depreciation. It seems that for this last categories the use of futuristic valuations is limited to these specific periods of the life of enterprise.

But the germ of the futuristic accounting is seeded and is gaining more ground beyond the previous well known cases. Let us take the example of goodwill; until now the IASC has demonstrated that "with the passage of time, goodwill diminishes, reflecting the fact that its service potential is decreasing"; it has also stressed that "in some cases, the value of goodwill may appear not to decrease over time" but "this is because the potential for economic benefits that was purchased initially is being progressively replaced by the potential for economic benefits resulting from subsequent enhancements of goodwill. In other words ,the goodwill that was purchased is being replaced by internally generated goodwill"(IAS 22,1998,§47); as a conclusion of these principles the IASC has derived the logical dynamic solution according to which the goodwill "should be amortised on a systematic basis over its useful period of life"(IAS 22,1998,§44): in other case, a potential profit should be registered in the accounts in the measure of the new created goodwill which is not possible, for, as the IASB stresses, "IAS 38.. prohibits the recognition of generally generated goodwill" (IAS38,1998,§36) .But as soon as the American FASB has renounced to amortise the goodwill, the IASB has taken a following my leader position and declared its intention to abandon the principle of systematic amortisation; with this solution the goodwill might not be impaired if its value (in use) would not decrease; the reader may concludes itself : the IASB now agrees to register the internally generated goodwill; it means again that the registration of future profits is sanctified in contradiction with the traditional static and dynamic rules: the way towards the total victory of the futuristic conception is opened!

As France is concerned, this partly futuristic accounting system is to be obligatorily applied in matter of consolidated accounts as soon as 2005; but, as we have said, until now this type of

accounts plays a limited role as far they cannot serve as a basis for the distribution of dividends; the question is to know if the IASB's standards are also to be applied in matter of individual accounts; this choice is let by the European Union to the member states and all will depend of the position of the CNC and the CRC; up to now, judging from some general declarations of the leaders of the CNC and the result of some recent works, all seems to say that the leading forces in the CNC would agree an extension of the IASB's rules to the individual accounts : if this solution would be reached it would say that the "futuric" accounting would have totally won the battle. The third stage of the French capitalist accounting would have begun!

Conclusion

As a conclusion for this description of the different stages of the French accounting capitalism we can emit a number of hypothesis concerning the nature of these stages and the reasons for their appearance.

The nature of the stages

A few French authors have also tried to propose a description of the evolution of the *valuation principles* of the French accounting system on a period with a length comparable to ours; this is notably the case of Nioche and Pesqueux (1995) and Sagroun and Simon (1999) who give a opinion which we are going to compare to the one we have defended.

Nioche and Pesqueux underline, just as we do, that the first stage of the French accounting system is characterised by the emphasis laid on problems of solvability and liquidity and the on the relationship between debt and capital (1995,p.233); the originality of their contribution stems from the fact that they think that the "static"- they also use this terminology- attitude must be put in relationship with the "French bourgeoisie's concern for heritage" (1995,p.233); but they do not take account, as it seems, of the slow change of spirit of this bourgeoisie to build a new dynamic type of accounting in line with its evolution towards a financial market based capitalism; at last, the appearance of a third stage is not mentioned, which is normal when considering the date of publication of their article.

Sagroun and Simon also distinguish a first stage marked by a "juridical and patrimonial" conception (1999,p.62) that they also rely, like Nioche and Pesqueux, to the French bourgeoisie's concern for measuring its fortune; at the difference of Nioche and Pesqueux, they note a "slip towards a less strictly patrimonial conception" (1999,p.63) without, however identifying, as we have done, a real dynamic stage. They also identify a third stage but in a very different way of our equivalent. While using some ideas of Mattessich (1992,p.177), Sagroun and Simon see in the emergence of the concept of comprehensive income and in the other recent FASB's novelties such as fair value, a kind of *return* to the first stage, that of the patrimonial (static) accounting, according to the "*principle of the pendulum*" (1999,p.73); for us, on the contrary, there is no return to the prudent static stage but a even bigger distance than at the time of the dynamic stage as far as the value in use is sanctified , potential gains are registered and some intangibles are considered as assets not to depreciate: the third stage is really a different one.

The reasons for the appearance of the third stage

The partisans of the appliance of the futuric accounting type generally relies on three types of arguments to justify their position which we are going to examine before giving our own explanation of the causes of the use of this theory.

The *first argument* is that the full fair value would prevent the managers to manipulate the results as far as, at the difference of the cost system, they cannot choose the moment of their

appearance by the mere decision to sell the assets and buy them again on the market; this “excuse” is doubly questionable; on one side fair value is not obligatorily an objective market value but can also be a value in use easily manipulable; on the other side, it forgets the essential thing that is the problem of the manipulation of dividends (see below).

The *second argument* is that full fair value could be a better way to realise the principle of prudence than the (dynamic) cost based system; some specialist stress, for example, in matter of goodwill, that now, with the obligation to take the lower value in use, impressive impairment losses are to be registered by some enterprise well above the losses resulting from the dynamic depreciation allowances. This argument is also questionable; it is possible that at the micro-economic level some enterprises in bad condition could suffer more from the fair value system than from the cost system but, at a macroeconomic level, it is doubtful: with the amortised cost system all enterprises are obliged to depreciate even in periods of stock market euphoria while with the fair value impairment system only a few ill enterprises are concerned if their managers and auditors decide it!

The *third argument* is that fair value accounting better reflects the value of the enterprise; but why accounting should have the task to reflect the value of the enterprise (as a whole)? Why it should not reflect the value of the elements composing the enterprise (static position) or the cost of these elements (dynamic position)? And if accounting must obligatorily show the value of the enterprise why it should prefer the value in use and not the stock market values? Are not stock market values, as it is said in almost all modern finance books, the best indicators of the value of enterprise?

Our thesis is that the answer to these questions is given by an almost never touched problem: the problem of *dividends*; our thesis is that the evolution of accounting theories, legislations and practices is mainly due to the necessity for the financial capitalism to distribute more and more and more and more rapidly dividends for more and more hurried managers and shareholders.

In the nineteenth century, in a time when dominated financing by debts or by accumulation of profits, the French capitalists accepted the idea of the static lawyers to shift back the appearance of profits and dividends, notably by heavy immediate scrapping of intangibles, to the end of the investment cycle; but, as it has been shown, towards the end of the nineteenth century, with the rise of the stock market financing (see notably Michalet, 1960), they have demanded a distribution of the results over the investment cycle and “pushed” the dynamic theory; this choice was not only a means to “organise the equity between the shareholders” (Nikitin, 1992, pp. 466 and 469) but also and *mainly* to avoid the consequences of an accounting theory too much favourable to the creditors; at the end of the twentieth century, after a period of huge combinations giving way to massive goodwills (Plihon, 2002, for the case of France and Stiglitz, 2003, for the case of the USA), the dynamic *solution is no longer sufficient* for both hurried managers and hurried shareholders (as described notably by Stiglitz, 2003, pp. 332-335, for the USA and Batsch, 2002, Perez, 2003 and Plihon, 2002, for France); these two social forces, *allied* in a kind of compromise which could be described along with a theory of “alliance” (by opposition to the “agency” theory) obtain, with the help of the weakening of the creditors and the trade unions, a power totally disconnected from the level of their contribution to the financing of companies (-see notably Plihon, 2002, who shows the decrease of the financing by equity during the period 1985-2001-); they demand a new accounting theory which allows for a massive appearance of results at the beginning of the investment cycle and, when possible, an increase of their amount in order to compensate the probable reduction of the rate of profit due to the massive apparition of goodwills. This theory, which only begins to be applied in some cases such as goodwill and available for sale investments, is the “futuristic” theory based on value in use. It allows for a discount of *future* benefits (-why should optimistic managers and shareholders anticipate losses?-), and a rise of

these benefits (in comparison with the prudent static theory and even the dynamic theory) if impairment losses are “forgotten”; it avoids the constraints of stock market valuations such as the necessity to take account of objective and fluctuating values; it gives to the managers and the auditors (who are paid by managers and shareholders) the possibility to play with subjective value that they can better control.

The lawyers of the nineteenth century had not waited for Ohlson (1990) to know that the principle of the lower of cost or market comprised a bias; they acknowledged this bias as an antidote to the innate optimism of the undertakers and their managers; a great number, such as Houpin (1923), had even tried to conciliate fair value and prudence by evaluating the assets at their fair value but with the condition to freeze the resulting potential gains in special holding gains reserves. This time is over: the tenants of the modern fair value have not the same scruples and propose the distribution of potential gains for the sake of hurried managers and shareholders unified in a kind of theory of “alliance”. It is a long time since the reputed procurator Dupin said, at the occasion of the Mires case in 1862, that “one cannot distribute expectations”!

Bibliography

- | | |
|---|--|
| Alexander,D (2003) | Fair values in IAS Gaap ,draft 02/03 Unpublished paper, department of accounting and finance, University of Birmingham. |
| Amiaud, A. (1920) | Traité théorique et pratique des comptes de réserves dans les Sociétés Anonymes, 2è édition, Librairie <i>Sirey</i> , Paris. |
| Anschütz,A Von Völderndorff (1867) | Kommentar zum allgemeinen Deutschen Handelsgesetzbuche, Erlangen |
| Batardon, L. (1931) | L'inventaire et le bilan. Étude juridique et comptable, 7è édition, <i>Dunod</i> , Paris. |
| Batsch,L. (2002) | Le capitalisme financier. Collection Repères. La découverte. Paris |
| Bedarride, J. (1854) | Commentaire du Code de Commerce. Aubin. Paris. |
| Benedetti, A. (2000) | Statistique économique et comptabilité d'entreprise, in Encyclopédie de la comptabilité, <i>Economica</i> ,p.1107. Paris. |
| Bergeron, L. (1978) | Les capitalistes en France (1780-1914).Archives Gallimard. Julliard. |
| Bessière, R. (1930) | Les notions d'amortissement, de provision et de réserve en matière d'impôt céduaire sur les BIC. Thèse. Montpellier. |
| Boltanski,L,Chiapello,E (1999) | Le nouvel esprit du capitalisme, Gallimard ,Paris |
| Brière, M. (1934) | L'imposition des plus-values et l'amortissement du fonds de commerce, Thèse, Bordeaux. |
| Brunet, A.A. (1951) | La normalisation comptable au service de l'entreprise, de la science et de la nation. Dunod. |
| Burchell,S.,Clubb,C., Hopwood,A.,Hughes,J., Nahapiet,J. (1980) | “The roles of accounting in organisations and society”. <i>Accounting, Organisations and Society</i> ,pp.5-27. |
| Capron, M.(1993) | La comptabilité en perspective, Collection Repères, <i>La découverte</i> , Paris |
| Casta, J.-F. (2003) | La comptabilité en juste valeur permet-elle une meilleure représentation de l'entreprise ?" <i>Revue d'économie financière</i> , n° 71, pp. 17-31. |
| Charpentier, J. et Hamelin, J. (1933) | Traité pratique des bilans et inventaires, 2è édition, Berger-Levrault. |
| Cazaux,de,L.F.G. (1825) | Eléments d'économie privée et publique. Paris, Huzard. |

- Chevandier de Valdrome,E. (1878)** Note sur la comptabilité appliquée à l'industrie. Nancy, Berger-Levrault.
- Degos, J.G. (1998)** Histoire de la comptabilité. PUF, coll « Que sais je ? ». Paris
- Colasse,B. (1979)** "Note pour une épistémologie de la comptabilité des entreprises". Cahier d'études du CREFI numéro 7904, Université de Paris Dauphine.
- Colasse, B. et Standish, P. (1998)** "State versus market : contending interests in the struggle to control French accounting standardisation", *Journal of Management and Governance*, 2,pp.107-147
- Colasse ,B. (2003a)** Réflexions sur l'harmonisation comptable internationale:de la résistible ascension de l'IASC/IASB (Conférence prononcée à l'Ecole des Sciences de la Gestion de l'Université du Québec à Montréal le 1/10 2003
- Colasse,B. (2003b)** La face cachée de la comptabilité, *le Monde de l'économie*, Mardi 25 Novembre,p.8.
- Collette, C. et Richard, J. (2000)** Comptabilité générale. Les systèmes comptables français et anglo-saxons, *Dunod*, Paris.
- Colson,C. (1919)** « La comptabilité commerciale ».Revue des sciences politiques, tome XLI, février, tiré à part.
- Courcelle-Seneuil, J.C. (1872)** Manuel des affaires ou traité théorique et pratique des entreprises industrielles, commerciales et agricoles, 3è édition, Guillaumin et Cie, Paris.
- Dalsace, A. (1944)** Essai sur la structure des bilans, Thèse, Faculté de Droit, Paris.
- Delaporte, J.B. (1808).** Commentaires sur le Code de Commerce, Tome 1, Demonville imprimeur, Paris.
- Delangle, M. (1843)** Des sociétés commerciales, tome premier. Joubert. Paris
- Didier, F. (1885)** "Etude sur l'inventaire des sociétés industrielles", *Journal des sociétés civiles et commerciales*, Février, pp. 128-154.
- Dreyfus,P. (1912)** Les amortissements dans les sociétés anonymes. Thèse.Paris.
- Faragi,V. (1906)** De la conception économique opposée à la conception juridique du bilan des sociétés par actions.Thèse,Paris.
- Fischer,R. (1905)** Die Bilanzwerte, was sie sind und was sie sind nicht,Teil1,Leipzig.
- Fourastié, J. (1961)** Comptabilité générale, PUF,Que sais je ? Paris.
- Frémery, A. (1833)** Etudes de droit commercial. Alex Gobelet. Paris
- Godard,P-A. (1827)** Traité général et sommaire de la comptabilité commerciale. Librairie du commerce. Paris.
- Haller,A, Stolowy,H. (1995)** Value added in financial accounting: a comparative study between Germany and France. HEC School of Management. Jouy en Josas.France
- Hilaire, J. (1986)** Introduction historique au droit commercial, *PUF*, Paris.
- Hopwood,A. (1987)** « The archaeology of accounting systems », *Accounting, Organisations and Society*,June,pp.207-234.
- Houpin, C. (1923)** "De la constatation des plus values de l'actif dans les bilans des sociétés par actions, et de leur incorporation au capital" *Journal des Sociétés* n° 11, pp. 481-506.
- Hughes,H.P. (1982)** Goodwill in accounting: a history of the issues and problems. Leeds University Library.
- Julhiet,E. (1922)** Cours de finance et comptabilité dans l'industrie. Librairie de l'enseignement technique. Paris
- Keyszner,H. (1875)** Aktienzinsen, Dividende und Bilanz. Archiv für Theorie und Praxis für das allgemeine Handelsrecht, Band 32,pp.99-145.

- Laveleye (de),G. (1885)** Questions de bilans. Bruxelles
Leautey,E.,Guilbault, A.(1889) La science des comptes mise à la portée de tous. Librairie comptable et administrative. Paris.
Leautey,E. (1897) Traité des inventaires et des bilans. Librairie comptable et administrative. Paris
- Lemarchand, Y. (1993)** Du dépérissement à l'amortissement. Enquête sur l'histoire d'un concept et sa traduction comptable, Ouest Editions, Nantes.
- Locre, (1829)** Esprit du Code de Commerce.Dufour.Paris.
Magnin,P. (1912) « De l'amortissement des immobilisations dans les bilans des sociétés anonymes ».Annales de droit commercial,tome 26,pp.419-458.
- Malo,A. (1841)** Eléments de comptabilité rurale théorique et pratique.Hachette.Paris
- Mathieu de Dombasle,C.J.A. (1821)** Le calendrier du bon cultivateur ou manuel de l'agriculteur praticien.Huzard.Paris
Mattessich,R. (1992) Modern Accounting Research: History, Survey and Guide, The Canadian Certified General Accountant's Research Foundation.
- Michalet, C.A. (1960)** Les placements des épargnants français de 1815 à nos jours. Presses universitaires de France.Paris.
- Mikol, A. (1995)** "The History of Financial Reporting in France" in European Financial Reporting, edited by P. Walton, Academic Press, pp. 91-121.
- Ministère de l'Economie Nationale (1947).** Plan Comptable Général . Imprimerie Nationale, Paris.
- Ministère de l'Economie et des Finances. Conseil National de la Comptabilité (1982).** Plan Comptable Général. Imprimerie Nationale, Paris.
- Ministère de l'Economie et des Finances. (1999) Comité de la Réglementation Comptable.** Règlement 99-03 relatif à la réécriture du Plan Comptable Général, Paris.
- Molinier, M.J. (1846)** Traité de droit commercial ou explication méthodique des dispositions du Code de Commerce, tome premier, Joubert, Librairie de la Cour de Cassation, Paris.
- Mangenot, M. (1976)** La comptabilité au service du capital. Delarge.Paris
Mikol, A. (1995) The history of financial reporting in France, in European Financial Reporting a History, edited by P. Walton, Academic Press. Harcourt Brace and Company.
- Monginot, A. (1854)** Nouvelles études sur la comptabilité commerciale industrielle et agricole. Paris.
- Moxter, A. (1982)** „Gefahren des neuen Bilanzrechts“,der Betriebsberater, Heft 17,Jun,pp.1030-1032.
- Moxter, A. (1984a)** Bilanzlehre, Band I, Einführung in die Bilanztheorie. Dritte Auflage.Gabler.
- Moxter, A. (1984b)** “Das Realisationsprinzip,1884 und heute”, Der Betriebs-Berater,Heft28,pp.1780-1786.
- Mueller, G. (1967)** International accounting. Macmillan. NewYork

- Neymark, A. (1911) "Les bilans dans les sociétés par actions".Revue des Sociétés, vol.29,mars et avril, pp.93-100et 141-149.
- Nikitin, M. (1992)** La naissance de la comptabilité industrielle en France.Thèse.Université de Paris Dauphine.
- Nioche,Jp.,Pesqueux,Y,C (1995)** "Accounting, economics and management science in France: the slow emergence of an accounting science". The European Accounting Review,Vol6 /2 231-250pp
- Nobes,C. ,Parker, R. (1979)** „Landmarks in accounting history“.Accountancy,June,p37
- Oberbrinkmann, F. (1990)** Statische und dynamische Interpretation der Handelsbilanz. IDW-Verlag
- Ohlson, J. (1990)** "A synthesis of security valuation theory and the role of dividends, cash flows and earnings" Contemporary Accounting Research, pp. 648-676.
- Palmade, G.P. (1961)** Capitalisme et capitalistes français au XIX ème siècle. Colin. Paris.
- Perez, R. (2003)** La gouvernance des entreprises. Collection Repères. La découverte. Paris.
- Plihon, D. (2002)** « Rapport du groupe de travail rentabilité et risque dans le nouveau régime de croissance » numéro 69,octobre, Commissariat Général du Plan.Expertises.
- Poujol, G. (1965)** Le Plan comptable commenté, Tome III, Comptabilité Générale, *Foucher*, Paris
- Praquin, N. (2003)** Comptabilité et protection des créanciers (1807-1942) : une analyse de la fonction technico-sociale de la comptabilité. Thèse. Université Paris Dauphine.
- Prospert, P. (1934)** Les amortissements industriels en droit commercial et en droit fiscal. Thèse. Toulouse.
- Richard,J. (1975)** Etude comparative des méthodes d'analyse de la gestion des entreprises industrielles dans quatre pays appartenant à des systèmes économiques et politiques différents :Etats-Unis,France,RDA,URSS.Thèse pour le doctorat de troisième cycle,Université Panthéon – Sorbonne.
- Richard, J. (1980)** Comptabilité et systèmes économiques . Thèse, Université de Paris Sorbonne
- Richard, J. (1982)** "Essai sur l'histoire des pratiques comptables internationales", Actes du troisième Congrès de l'AFC,pp.177-227
- Richard,J. (1983)** « Comptabilité pour l'autogestion : la comptabilité des entreprises yougoslaves » ;Cahiers français de la documentation française, numéro 210,mars –avril.
- Richard, J. (1993)** « Les origines du Plan Comptable français de 1947 : les influences de la doctrine comptable allemande »,Cahier de recherche numéro 9302,CEREG,Université Paris Dauphine.
- Richard, J. (1996)** Comptabilités et pratiques comptables. Dalloz.
- Richard,,J.BecomSimons, Secafi-Alpha. (2000)** Analyse financière et gestion des entreprises. Economica
- Richard, J. (2001)** « Histoire de la valeur dans les réglementations comptables allemande et françaises de 1673 à1914 » in Juste valeur, études coordonnées par Casta, J.F. et Colasse,B.pp.17-45. Economica
- Richard, J. (2003)** « Le risque d'un fiasco comptable européen ».Le Monde de l'économie, Mardi 8 Avril,p.6.
- Ring, V. (1886)** Das Reichsgesetz betreffend die Kommanditgesellschaft auf Aktien und die Aktiengesellschaft vom 18.Juli 1884,Berlin.
- Rives, L. (1962)** Obsession fiscale et administration des entreprises : essai sur le rapt de la comptabilité par le fisc. Thèse, Bordeaux. Imprimerie Pechade.
- Sagroun,J., Simon, C. (1999)** "Primauté du bilan ou du compte de résultat, le principe du pendule »,Comptabilité Contrôle ,Audit, tome 5,vol1,pp 59-76
- Savary, J. (1675)** Le parfait négociant ou instruction générale pour ce qui regarde le commerce... chez Louis Billaire..., avec le privilège du Roy, Reproduction en fac simulé de la 1ère édition par Klassiker der Nationalökonomie, Allemagne.
- Scheffler, H. (1879)** "Ueber Bilanzen", in Vierteljahrsschrift für Volkswirtschaft, Politik, und Kulturgeschichte, Année 16, pp. 1-49, Allemagne.
- Schmalenbach, E. (1908)** „Die Abschreibung“.ZfhF,numéro 3,pp. 81-88.
- Schmalenbach, E. (1919)** Grundlagen dynamischer Bilanzlehre" in ZfhF 13^{ème} Année , pp. 1-50 et 65-101, Allemagne.

- Schmidt, F. (1921)** Die organische Bilanz im Rahmen der Wirtschaft, Gloeckner, Leipzig.
- Schneider, D. (1974 -1975)** „Die vernachlässigten Begründer der Bilanzdiskussion“ (I), (II), (III), WiSt, Heft 6 (1974), Heft 12 (1974), pp.584-588, Heft 1 (1975), pp.40-44.
- Schneider, D. (1995)** The history of financial reporting in Germany, in European Financial Reporting a history edited by P. Walton. Academic press. Harcourt Brace and Company.
- Simon, H.V. (1899)** Die Bilanzen der Aktiengesellschaften, 3^{ème} édition, Berlin
- Standish, P. (1997)** The French Plan Comptable, Explanation and Translation. Ordre des Experts Comptables, Paris
- Stiglitz, J. (2003)** Quand le capitalisme perd la tête. Fayard. Paris
- Thaller, E. (1904)** Traité élémentaire de droit commercial, troisième édition, Arthur Rousseau, Paris.
- Tinker, A. (1980)** « Towards a political economy of accounting : an empirical illustration of the Cambridge controversies », Accounting, Organizations and Society, pp.147-160.
- Vavasseur, M. (1868)** Traité théorique et pratique des sociétés par action, Imprimerie et librairie générale de jurisprudence, Cosse Marchal et Cie, Paris.
- Vavasseur, M. (1883)** "Les inventaires et les bilans", Revue des Sociétés , tome I, pp. 55-56, 123-128, 327-328, 389-393, 681-689, Paris.
- Vigier, F. (1941)** Les provisions dans la comptabilité des entreprises. Thèse. Université de Strasbourg .Librairie du Recueil Sirey.
- Vincens, E. (1821)** Exposition raisonnée de la législation commerciale et examen critique du Code de Commerce. Barrois. Paris.
- Von Strombeck, J. (1878)** „Grundkapital, Grundvermögen und Bilanz der AG, insbesondere der Eisenbahngesellschaften“, in Archiv für Theorie und Praxis des allgemeinen deutschen Handelsrechts, Band 37, pp.1-33, Band 38, pp.13-107.
- Von Willmowski, B. (1895)** „Die Abschreibung für Abnutzung von Gebäuden, Maschinen, Betriebsrathhschaften u.s.w. sowie für den Verbrauch der Substanz der Mineralmasse eines Bergwerks nach den Bestimmungen des Einkommensteuer-Gesetzes vom 24. Juni 1891“, Verwaltungsarchiv, dritter Band, pp.366-383.
- Von Willmowski, B. (1896)** Kommentar zum Preussischen Einkommensteuergesetz, Breslau.
- Voutsis, C. (1965)** La distribution de dividendes fictifs. Thèse, Paris. LGDJ
- Wahl, J. (1901)** Note Sirey, pp. 297 et 537.
- Walton, P. (2001)** La comptabilité anglo-saxonne. Collection Repères. La découverte. Paris.
- Weber, M. (1995)** Economies et sociétés, tome 1, Agora les classiques, Plon. Paris.
- Yamey, B.S. (1964)** “Accounting and the rise of capitalism: further note on a theme by Sombart”, Journal of Accounting Research, Vol.2, Autumn, pp.117-136